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- Background
- New Internal Control Challenges
- Revised OMB A-123 Requirements
- Grant Thornton's Internal Control Experience
- Grant Thornton's Internal Control Strategy
- Discussion

- In the news everyday
- USA Today news bits
  - Louisiana
  - North Dakota
  - Tennessee
  - West Virginia

- Passed by Congress in 1982 after a series of highly publicized internal control breakdowns
- Goal was strengthening internal control and accounting systems
- Defined internal control to include program, operational, and administrative controls, in addition to accounting and financial management

- Management has primary responsibility for adequate internal control systems
- Agencies to establish continuous process for the assessment and improvement of internal controls
- Issue annual assurance statement on whether internal controls effectively designed and operating

- Annual statement identifies material weakness and corrective actions taken to resolve issues
- Comptroller General established internal control standards
- OMB issue guidelines to assess internal controls against Comptroller General standards

- Issued in 1983 and revised in 1999
- Apply equally to financial and nonfinancial controls
- Five standards –
  - Control environment
  - Risk assessment
  - Control activities
  - Information and communication
  - Monitoring

- Implements FMFIA
- Provides for a seven step internal control assessment process based on the agency's mission and organizational structure
- 1984 Supplement of questions and answers to assessment guidelines to clarify the applicability of CompGen's internal control standards
- Supplement assisted agencies in assessing risk and correcting weaknesses

- GAO issues series of reports over the years addressing continuing internal control weaknesses
- Many of the most serious and complex internal control and accounting system weaknesses remain and OMB process was becoming a paper shuffle
- Internal Control Interagency Coordination Council highlights seven issues needing action

- Link internal control assessment and reporting process with the budget
- Emphasize early warning capabilities of the internal control process
- Consolidate review process of various OMB circulars
- Promote senior management involvement in the internal control process

- Highlight most critical internal control weaknesses in FMFIA assurance statements
- Report on agency process to validate corrective actions taken on material weaknesses
- Improve management awareness and understanding of FMFIA

- SOX resulted from series of corporate accountability scandals
- Similar in concept to FMFIA and OMB A-123
- Requires management to
  - Annually assess internal controls over financial reporting
  - Issues annual statement on effectiveness of internal controls over financial reporting

  - Requires company auditors to attest to and report on management's assessment of its internal controls
- Major difference with FMFIA and OMB A-123
  - No requirement for auditor opinion on federal manager's assessment of internal control over financial reporting
  - No requirement for auditor opinion on effectiveness of internal control

The new internal control challenges include:

- Increased emphasis on internal control from OMB, GAO, CFO Council and the Inspector General Community.
- Revised OMB Circular A-123 requires, in part, a separate statement of assurance for internal control over financial reporting.
- Recent legislation was passed requiring DHS to obtain a separate audit opinion on its internal controls.
- Increased scrutiny of internal control during the financial statement audit.
- Ensuring the system of internal control is designed so that it is aligned with the strategic plan and helps an agency achieve its mission.

The Revised OMB Circular A-123 requires:

- Agency heads to provide a separate statement of assurance on internal controls over financial reporting.
- Management to integrate government-wide initiatives with internal control requirements.
- Each agency to assess its controls at the entity and transaction levels.
- Each agency to document its internal controls, assess the associated risks and perform a detailed review of its internal controls to ensure they are functioning as intended.
- The statement of assurance to be as of June 30.

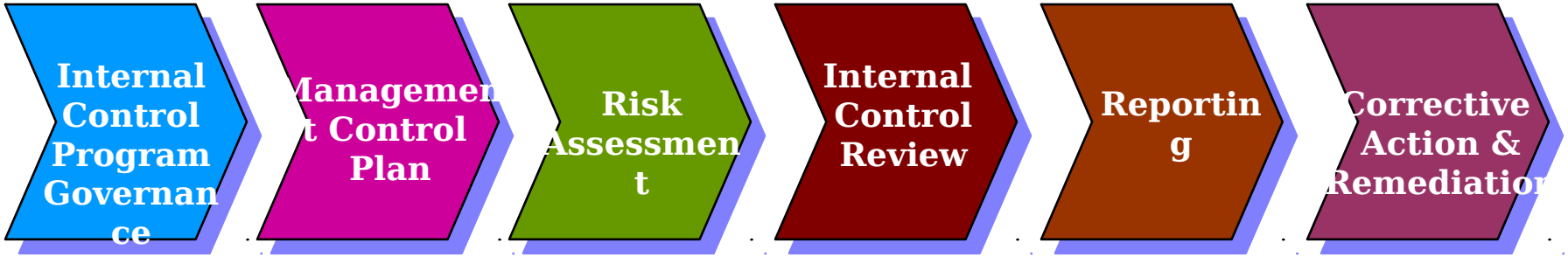
Significant revisions to OMB Circular A-123 include:

- Realigning the standards for internal control to match the GAO Standards for Internal Control:
  - Control environment
  - Risk assessment
  - Control activities
  - Information and communication
  - Monitoring
- Introducing reportable condition as a category of deficiency.

- Suggest the use of a senior management council or senior assessment team similar to Audit Committee is SOX
- OMB could require separate audit opinion on Statement of Assurance over financial reporting if agencies are not correcting deficiencies
- Service organizations must provide annual assurance statement to entities they service i.e. payroll processing (similar to SAS 70)

- Grant Thornton's internal control clients include:
  - Federal Motor Carrier Safety Administration
  - Office of Justice Programs
  - United States Coast Guard
  - NASA

- Results include:
  - Developing and implementing comprehensive internal control programs.
  - Documenting the assessable units, major processes, control objectives and techniques, and risks.
  - Conducting internal control reviews and tests of assessable units to determine if the controls were functioning as intended.
  - Providing the results of the internal control reviews to senior management to support the annual Statement of Assurance.
  - Providing a findings and recommendations report to senior management.


Internal Control Program Governance
Management Control Plan
Risk Assessment
Internal Control Review
Reporting
Corrective Action & Remediation

- Internal control program governance
  - Consists of institutional framework.
  - Establishes FMFIA Steering Committee.
  - Specifies internal control review schedule.
- Management control plan (MCP)
  - Specifies assessable units, major processes, control objectives and activities, and risks.
  - Documents the inherent risk, likelihood of risk occurring and potential impact on the agency.
- Risk assessment
  - Supports systematic review and assurance statement.
  - Evaluates the susceptibility of a component of a programmatic or administrative area to waste, fraud, abuse, or mismanagement.

- Internal control review
  - Using an assessment tool, determine whether controls are adequate, working as intended and whether new controls are needed.
- Reporting
  - Includes an annual Statement of Assurance, report on material weaknesses and non-conformances and remediation or corrective action plans.
- Corrective action and remediation
  - Necessary if there are material internal control weaknesses or non-conformance issues with the financial management systems.

- Ensuring the system of internal control aligns with the strategic plan and agency mission.